

MOBILIZATION OF LOW-INCOME SAVINGS IN MICROFINANCE INSTITUTIONS

(TC-01-04-01-0)

EXECUTIVE SUMMARY

Executing agency: Fund for Financial System Development and Productive Sector Support (FONDESIF)

Financing:	Modality:	Nonreimbursable
	MIF Window I:	US\$1,220,000
	Local counterpart:	<u>US\$1,230,200</u>
	Total:	US\$2,450,200

Execution timetable:	Execution:	36 months
	Disbursement:	42 months

Beneficiaries: During the project period, it is estimated that the project will directly benefit over 2.5 million people through education campaigns to inculcate a savings culture and that over 28,000 new accounts will be opened by customers who decide for the first time to use deposit services at a microfinance institution (MFI) for purposes of saving.

The low-income population will benefit from the expected results derived from the increased quality and volume of *deposit services*: (i) larger number of deposit products targeted at their needs; (ii) constant innovation in customer service mechanisms (speed, convenience, ease, and treatment); and (iii) increase in total deposit-taking from the public and in the number of savings accounts. These benefits will primarily accrue to people who have not had access to deposit services or who have not found services that meet their needs in terms of security, convenience, liquidity, return, etc. This deepening of financial services to low-income sectors is expected to result in their higher participation in the formal financial sector and to help increase the country's internal savings rate, thereby causing the Bolivian economy to grow.

The successful execution of the project will generate a **significant demonstration effect**, since there is no other known program in the region that fosters the mobilization of savings by low-income groups in MFIs and in which all the promoters of microfinance and the MFIs participate. MIF resources will support a pioneering initiative that could serve as a model for eventual **replication** in other countries in the region.

Project objectives: The **general objective** of the project is to help increase the level of deposit-taking from the public by MFIs in Bolivia. The **specific objective** is to enhance the quality, variety and volume of deposit services offered by participating MFIs, to meet the demands and needs of their traditional clientele primarily.

Description: The project seeks to build on the efforts of the private sector, the State, international cooperation agencies, and other institutions that promote microfinance, to bring in under a single program various comprehensive actions aimed at improving and expanding the provision of deposit services in MFIs. Through activities to stimulate the demand for and supply of deposit services, and improve the regulatory environment, the project will contribute not only to making these financial services more widely available, but will help reduce the MFIs' over-dependence on large and potentially volatile sources of funding and deposits. At the same time, this project will help to meet a deeply-felt need for services of this kind among the great majority of the population, by offering suitable products and distribution channels.

The project will consist of three components, which will be executed simultaneously. These components are intended to promote: (i) an increase in the *supply* of high-quality, demand-driven deposit services; (ii) an increase in the *demand* for such services, primarily among low-income groups; and (iii) an improved *regulatory environment* for deposit-taking in microfinance institutions.

The **first component** will attempt to enhance the quality and variety of the deposit services that MFIs offer their clientele, and to strengthen their technical capacity to effectively manage and market those services. To achieve these goals, the project will involve four categories of activities: (i) planning and marketing; (ii) technological development; (iii) managerial improvement; and (iv) exchange of know-how.

The **second component** seeks to generate demand and create a market for formal deposits, and thus increase the volume of deposits, through education and awareness activities and the development of a "formal savings culture" in the country, with emphasis on low-income groups and on micro and small enterprises. The project will seek to expand public awareness of the importance of this issue in the everyday life of citizens at all levels. The proposed activities will encourage formal savings, in cooperation with senior levels of government and educational institutions, the media and other social channels, by means of educational and publicity campaigns (the press).

The **third component** will examine the current regulatory and legal setting for MFI deposit-taking, and will draw upon successful experience in other countries to provide practical recommendations on possible amendments to encourage both the supply of and the demand for microfinance deposit-taking services in urban and rural markets alike. Once the results of this analysis are in hand, FONDESIF will have meetings and workshops for coordination and sharing of information with the Superintendent of Banks and Financial Institutions (SBEF), the Office of the Deputy Minister for Financial Affairs (VAF), and the participating MFIs in order to examine the feasibility of the recommendations. This component will also support the public dissemination of information and of the results generated by the project, to give national and international exposure to the experiment and the lessons learned from it.

**Special
contractual
clauses:**

Prior to the first disbursement, FONDESIF will submit to the Bank's satisfaction: (i) an annual operating plan for carrying out the activities for the first year of the project, including the sequence for execution of proposed activities, semiannual performance targets, both quantitative and qualitative, and their underlying assumptions; (ii) evidence that the project Operating Regulations are in force; (iii) evidence that the project's executing unit has been set up and that the project director and the assistants have been hired pursuant to terms of reference previously approved by the Bank (see paragraph 5.4); and (iv) evidence that the agreement for the transfer of resources between the Ministry of Finance and FONDESIF for project execution has been signed (see footnote number 9).

Before more than 75% of the Bank's resources have been disbursed, FONDESIF will provide evidence to the Bank's satisfaction that it has conducted a seminar, with wide participation by the private sector, the public sector, and international cooperation agencies, in which the findings and lessons learned through the project up to that point have been analyzed and disseminated and a preliminary proposal prepared to provide continuity for the efforts made under the project in terms of promoting the mobilization of savings by low-income groups in Bolivia (see paragraph 4.4).

**Exceptions to
Bank policy:**

None.

**Environmental
and social
review:**

The Committee on Environment and Social Impact (CESI) reviewed the project on 27 July 2001, and offered no comments or recommendations.